



Maryland Department of Budget & Management

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*Office of the Secretary
Division of Policy Analysis*

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Deputy Secretary

October 22, 2004

TO: State Agency Fleet Managers and Chief Financial Officers

FROM: Larry Williams, State Fleet Administrator

SUBJECT: 2004 Internal Revenue Service (IRS) Vehicle Fringe Benefit Program

Employees who commute in a State vehicle are required by IRS regulations to report such vehicle use as part of their gross income. This requirement applies to employees who pay the State commute charge as well as those who the State exempts from paying commute charges. The exceptions are those employees who commute on an occasional or infrequent basis (once a month or less) or commute in a qualified nonpersonal-use vehicle as defined by the IRS.

The reporting period for the 2004 IRS Vehicle Fringe Benefit Program is November 1, 2003 to October 31, 2004. The enclosed attachments provide the information necessary to comply with IRS regulations. Please ensure that each employee in your agency who commuted in a State vehicle during the reporting period, unless exempt as stated above, receives a copy of this memo with all attachments and completes the reporting requirements. Affected employees may be identified using WebFleetMaster (for commuters who are assigned a vehicle) or agency vehicle mileage logs (for commuters using pool vehicles). This year, **agencies are required to certify** that all employees who are required to report have received the required information and submitted the report. Additionally, agencies must review the completed reports to ensure that they are accurate before submitting them to DBM.

Employees are reminded that they are responsible to the IRS for submission of accurate information to their employer. The agency is to forward completed forms to the Department of Budget and Management, Fleet Administration Unit. **These forms are due by November 15, 2004.** This deadline is important because late forms may result in amended W-2's, may cause employees to file an amended tax return, and may cost agencies for employee F.I.C.A. taxes that become uncollectible.

Questions regarding Auto Fringe may be directed to the DBM Fleet Administration Unit at 410-260-7525. Thank you for your assistance with this matter.

Attachments

Attachment 1
VEHICLE FRINGE BENEFIT
CALCULATION RULES AND PROCEDURES

There are three calculation rules that are available to compute the value of an employer provided vehicle: the commute rule, the cents-per-mile rule, and the lease value rule. Those employees required to report vehicle fringe value to the IRS are required to choose the appropriate method. The majority of State employees will use either the commute or the cents-per-mile rule. In some cases the employee may have to use the lease value rule. Once you select a valuation method you must continue to use it in subsequent years unless the vehicle no longer meets the method's qualification requirements.

Some vehicles that are not likely to be used more than a minimal amount for personal purposes are exempt from reporting. These vehicles are identified in Attachment 3.

A. The Commute Rule

1. Eligibility

All of the following requirements must be met to use the Commute Rule.

- a. The State of Maryland owns or leases the vehicle and the vehicle is provided to you for business use.
- b. For bona fide non-compensatory business reasons you are required to commute in the vehicle.
- c. You follow the State Fleet Policy and Procedures Manual regarding personal use of State vehicles.
- d. You do not use the State vehicle for personal purposes, other than for commuting or de minimis personal use.
- e. You are **not** a control employee (if the vehicle is an automobile, i.e., any 4-wheeled vehicle, such as a car, pickup truck, or van). IRS regulations define control employees as:
 - Elected officials, and
 - Employees whose pay equals or exceeds the pay to a Federal Government employee holding a position at Executive Level V. Presently, this compensation amount is \$128,200 per year.

2. Procedure - Commute Rule

Employees who use the Commute Rule are to calculate their fringe benefit value by multiplying the number of one-way commute trips made in a State vehicle by \$1.50. If more than one employee commutes in the vehicle this value applies to each employee. The number of one-way commute trips, and the resulting valuation are to be recorded in Section I of the Calculation/Reporting Form. (Attachment 2). Results are recorded on line 4 of Section I and line 19 of Section IV of the Calculation/Reporting Form.

Employees may subtract the amount they reimbursed to the State for commuting in a State vehicle from the fringe value to be reported to the IRS, in Section IV of the Calculation/Reporting Form. The difference should be recorded on line 23. This amount is not to be less than zero (0).

Employees who commute as a passenger should write "PASSENGER" at the bottom of the form.

B. The Cents-Per-Mile Rule

1. Eligibility

You can use the Cents-Per-Mile Rule if **either** "a" or "b" of the following requirements is met, **and** you are not excluded by restrictions noted in "c".

- a. Your vehicle is reasonably expected to be regularly used for State business throughout the calendar year. A vehicle is regularly used when at least 50% of the vehicle's total mileage is for State business **or** the vehicle is generally used each workday to drive at least 3 employees to and from work in an employer-sponsored commuting vehicle pool.
- b. The vehicle meets the mileage rule requirement. The vehicle meets the mileage rule for a calendar year if the vehicle is actually driven at least 10,000 miles (business or commute) during the year, and the vehicle is used during the year primarily by employees. If the vehicle is owned or leased by the State for only part of the year, the 10,000-mile requirement should be reduced proportionally.
- c. You **cannot** use the Cents-Per-Mile Rule if the value of the vehicle in the year it was first made available to any employee for commute, exceeded the amount established by the IRS as the maximum automobile value for the year. To determine if your vehicle is eligible, you must compare the vehicle's acquisition cost to the maximum automobile value (listed below) for the year in which the vehicle was purchased. If you do not know the purchase price and year of your vehicle, this information should be available from your agency's fleet manager. If your vehicle's cost exceeds the value for its year of purchase, you cannot use the Cents-Per-Mile Rule:

Maximum		Maximum	
Year	Value	Year	Value
2004	\$14,800	1999	\$15,500
2003	\$15,200	1998	\$15,600
2002	\$15,300	1997	\$15,700
2001	\$15,400	1996	\$15,400
2000	\$15,400	1995	\$15,200

If you cannot meet the requirements of the Cents-Per-Mile Rule and fall under the definition of a control employee you must use the Lease Value Rule. If you cannot meet the requirements of the Cents-Per-Mile Rule and are not a control employee you must use the Commute Rule.

2. Procedure - Cents-Per-Mile Rule

Employees who use the Cents-Per-Mile Rule must determine the number of commute/personal miles driven in the vehicle. The fringe benefit is calculated by multiplying these commute/personal miles by the IRS standard mileage rates. To that sum must be added the salaries, fringe benefits and all other costs associated with an employer-provided chauffeur, if applicable. The resultant total is recorded in Section II, line 10 and Section IV, line 20.

Employees may subtract the amount they reimbursed the State for commuting in a State vehicle, from the fringe value to be reported to the IRS in Section IV of the Calculation/Reporting Form. The difference should be recorded on line 23. This amount can never be less than zero (0).

C. The Lease Value Rule

1. Eligibility

The Lease Value Rule is for control employees who are assigned a State vehicle having a fair market value (FMV) more than the established IRS amounts stated in section B.1.c above, or, having a FMV below the established IRS amounts stated above and cannot meet the eligibility requirements under the Cents-Per-Mile Rule. Other employees must use the commute value method.

2. Procedure – The Lease Value Rule

Determine the Fair Market Value of the vehicle on the first date it is available to any employee for commute/personal use. The FMV of your assigned vehicle can only be changed after four years or when the vehicle is transferred, provided the transfer is not for the purpose of reducing taxes. The re-evaluation can be performed using published vehicle pricing guides.

Find the FMV and the corresponding Annual Lease Value (ALV) amount from the IRS table (see IRS Tax Publication 15-B, pages 19-20; publication can be found on www.irs.gov). If the vehicle was not available for the entire year, you may prorate the ALV by dividing the number of days the vehicle was available by 365, then multiply the result by the ALV. The Annual Lease Value should be entered on line 11 in Section III of the Calculation/Reporting Form.

On lines 12 and 13, record the total number of miles driven in the vehicle and the number of commute/personal miles. On line 14, record the percentage of personal to total miles. Multiply the ALV (reported on line 11) by the percentage of personal miles to total miles, giving a personal use fringe benefit value for the vehicle. Record the result on line 15.

The personal use value of employer-paid fuel is to be recorded on line 16. Additionally, if applicable, the value of a State provided chauffeur must be recorded on line 17. The total fringe value is recorded on lines 18 and 21.

Employees may subtract the amount they reimbursed the State for commuting in a State vehicle from the fringe value to be reported to the IRS in Section IV of the Calculation/Reporting Form. The difference should be recorded on line 23. This amount can never be less than zero (0).

Attachment 2
AUTO FRINGE VALUE CALCULATION/REPORTING FORM
NOVEMBER 1, 2003 AND ENDING OCTOBER 31, 2004

Last Name	First Name	M.I.	Work Phone
Social Security No.	Agency Code	Auto Fringe Value	
SECTION I: COMMUTE RULE VALUATION METHOD			
1. Number of one-way commute trips from home to office or first duty station of the day during the reporting period.			
2. Number of one-way commute trips to home from office or last duty station of the day during the reporting period.			
3. Add lines 1 and 2 and enter sum here.			
4. Multiply line 3 total by \$1.50 and enter result here and on line 19.			
SECTION II: CENTS PER MILE RULE VALUATION METHOD			
5. Total number of commute/personal miles driven before January 1, 2004			
6. Total number of commute/personal miles driven after December 31, 2003			
7. Multiply line 5 by \$0.36 and enter here			
8. Multiply line 6 by \$0.375 and enter here.			
9. Enter salary and fringe benefits paid by the State for a State-provided chauffeur.			
10. Add lines 7,8, and 9 and enter sum here and on line 20.			
SECTION III: LEASE VALUE RULE VALUATION METHOD			
11. Annual lease value amount (from IRS table)			
12. Total number of miles driven			
13. Total number of commute/personal use miles			
14. Percentage of personal to total miles (line 13 divided by line 12)			
15. Multiply line 11 by line 14 and enter here.			
16. Employer paid fuel – multiply line 13 by 5.5 cents and enter here.			
17. Enter salary and fringe benefits paid by the State for a State-provided chauffeur			
18. Add line 15, 16 and 17 and enter sum here and on line 21			
SECTION IV: TOTAL AUTO FRINGE VALUE			
19. Enter total from SECTION I, line 4 here.			
20. Enter total from SECTION II, line 10 here.			
21. Enter total from SECTION III, line 18 here			
22. Enter total commute payments to State for use of a State vehicle.			
23. Subtract line 22 from line 19, 20, or 21; enter here and in section marked "AUTO FRINGE VALUE" above (do not enter value less than 0).			

The information on this sheet is true and correct to the best of my knowledge and belief.

Signature: _____

Date: _____

Attachment 3

IRS Qualified Non-Personal-Use Vehicles

A qualified nonpersonal-use vehicle is any vehicle the employee is not likely to use more than a minimal amount for personal purposes because of its design. Employees who drive qualified non-personal-use vehicles are exempt from the IRS vehicle fringe reporting requirements when the conditions for that vehicle type are met:

1. Clearly marked police and fire vehicles, when the employee is **required** to use the vehicle for commuting and is on call at all times. Personal use (other than commuting), if allowed, must be confined to within the law enforcement officer's or firefighter's jurisdiction.
2. Unmarked law enforcement vehicles used by law enforcement officers when any personal use, including commuting, is authorized by the State and subordinate to law enforcement functions such as reporting directly from home to a stakeout, surveillance site, or an emergency situation. Recreation and vacation trips do not qualify as authorized use.

A "Law Enforcement Officer" is a full-time employee of a governmental unit that is responsible for preventing or investigating crimes and who is authorized to carry firearms, execute warrants, and make arrests. The officer must regularly carry firearms except when the nature of undercover work dictates otherwise.

3. Ambulances and hearses used for those purposes.
4. Any vehicle designed to carry cargo with a loaded gross vehicle weight over 14,000 pounds.
5. Delivery trucks with seating only for the driver, or the driver plus a folding jump seat.
6. Passenger buses with a capacity of at least 20 passengers and used for that purpose.
7. School buses.
8. Tractors and other special-purpose farm vehicles.
9. **Pick-up trucks.** A pick-up truck with a loaded gross vehicle weight of 14,000 pounds or less is a qualified nonpersonal-use vehicle **if it has been specially modified so that it is not likely to be used more than minimally for personal purposes**. For example, a pick-up truck qualifies if it is clearly marked with permanently affixed decals, special painting, or other advertising associated with your trade, business, or function **and** meets **either** of the following requirements:
 - a. It is equipped with **at least one** of the following items:
 - A hydraulic lift gate
 - Permanent tanks or drums
 - Permanent sideboards or panels that materially raise the level of the sides of the truck bed.
 - Other heavy equipment (such as an electric generator, welder, boom, or crane used to tow automobiles and other vehicles).
 - b. It is used primarily to transport a particular type of load (other than over the public highways) in a construction, manufacturing, processing, farming, mining, drilling, timbering, or other similar operation for which it was specially designed or significantly modified.
10. **Vans.** A van with a loaded gross vehicle weight of 14,000 pounds or less is a qualified nonpersonal-use vehicle **if it has been specially modified so it is not likely to be used more than minimally for personal purposes**. For example, a van qualifies if it is clearly marked with permanently affixed decals, special painting, or other advertising associated with your trade, business, or function and has a seat for the driver only (or the driver and one other person) and either of the following items.
 - Permanent shelving that fills most of the cargo area.
 - An open cargo area and the van always carries merchandise, material, or equipment used in your trade, business, or function.

Attachment 4

AGENCY CERTIFICATION OF THE AUTO FRINGE REPORTING PROCESS
2004 REPORTING PERIOD
NOVEMBER 1, 2003 AND ENDING OCTOBER 31, 2004

Agency Name:
Name of Individual Certifying Agency Compliance:
Title of Individual Certifying Agency Compliance:
Phone Number:
E-mail Address:
Number of Forms Submitted:

I certify that to the best of my knowledge:-

- **All employees within this agency who have commuted in a State vehicle and who are required by IRS regulations to report such vehicle use as part of their gross income have been given the necessary reporting information and have properly completed the required forms.**
- **Agency personnel have checked these forms for accuracy and completeness.**
- **The required forms are transmitted with this certification. Copies and related documentation will be maintained on file within the agency for 3 years and will be made available for any DBM audit verification.**

Signature:
Date: